

## Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 IO-14 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 DODE-00 PA-04 USIA-15 PRS-01 FEA-02 L-03 H-03

SAJ-01 INT-08 DRC-01 /194 W  
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R 181755Z JAN 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 9816

INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 01 OF 02 BONN 00958

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: BUNDESBANK ON FRG ECONOMY AND BALANCE OF  
PAYMENTS

1. SUMMARY. BUNDESBANK OFFICIALS ARE NOT OVERLY CONCERNED ABOUT THE OIL CRISIS AND EVEN EXUDE A SENSE OF CONFIDENCE. ALTHOUGH ADMITTEDLY ROUGH PROJECTIONS, BUNDESBANK OFFICIALS ESTIMATE FOR 1974: (1) REAL GNP GROWTH: 0 - 2 PERCENT; (2) RATE OF INFLATION: 8 - 11 PERCENT; (3) AVERAGE UNEMPLOYMENT: 500,000; (4) A REDUCTION OF PERHAPS 200,000 IN THE NUMBER OF FOREIGN WORKERS IN THE FRG; (5) AN INCREASED OIL IMPORT BILL OF DM 15 BILLION; (6) A TRADE SURPLUS APPROACHING DM 25 BILLION; AND (7) ROUGHLY A CURRENT ACCOUNT EQUILIBRIUM. END SUMMARY.

2. BUNDESBANK OFFICIALS AT ALL LEVELS ARE NOT OVERLY  
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CONCERNED ABOUT THE "OIL CRISIS" AND FEEL CONFIDENT IN

THE ABILITY OF THE FRG DOMESTIC ECONOMY AND BALANCE OF PAYMENTS TO COPE WITH THE RECENT OIL DEVELOPMENTS.

3. REAL GNP GROWTH IS TENTATIVELY ESTIMATED AT BETWEEN 0 AND 2 PERCENT FOR 1974, WITH MOST OFFICIALS LEANING TOWARDS ABOUT ONE PERCENT. ON A LONGER TERM PERSPECTIVE, BUNDESBANK DIRECTOR IRMLER PUT FORWARD THE HYPOTHESIS THAT, EVEN EXCLUDING ANY NEGATIVE EFFECTS OF AN OIL CRISIS, THE LONG RUN GROWTH PATH OF REAL GNP FOR THE FRG COULD PROBABLY NOT EXCEED THREE PERCENT ANYWAY GIVEN THE FAIRLY STABLE FRG POPULATION COUNT.

4. BUNDESBANK OFFICIALS SEE SERIOUS SECTORAL DIFFICULTIES IN THE AUTOMOTIVE, TEXTILE, AND CONSTRUCTION INDUSTRIES IN 1974. HOWEVER, THE OIL SITUATION HAS LITTLE OR NOTHING TO DO WITH THE PROBLEMS IN THE LATTER TWO SECTORS. EARLY INDICATIONS ARE THAT 1974 MAY EVEN BE A BANNER YEAR FOR SOME OTHER SECTORS OF THE ECONOMY.

5. OF MAJOR CONCERN, HOWEVER, IS THE COST-OF-LIVING SITUATION. THE 1974 RATE OF INFLATION IN THE FRG WILL DEPEND CRUCIALLY ON THE UPCOMING WAGE NEGOTIATIONS. IN PRIVATE CONVERSATIONS WITH LABOR UNION LEADERS, BUNDESBANK OFFICIALS HAVE NOTICED SOME SOFTENING IN THEIR PUBLICLY TAKEN HARD LINE WAGE DEMANDS (FOR OVER 15 PERCENT YEARLY WAGE INCREASES IN MOST CASES). THE BUNDESBANK HOPES FOR WAGE SETTLEMENTS UNDER TEN PERCENT, BUT REALISTICALLY DOES NOT EXPECT THIS. CURRENT BUNDESBANK THINKING IS THAT THE RATE OF INFLATION IN 1974 WILL "CERTAINLY NOT REPEAT NOT BE LESS THAN 7 PERCENT" AND COULD BE AS HIGH AS 11 OR 12 PERCENT. A WORKING LEVEL STUDY PEGS THE PROBABLE INCREASE IN CONSUMER PRICES AT ABOUT 9 1/2 TO 10 PERCENT WITH A SLIGHTLY LOWER GNP DEFLATOR.

6. THE BUNDESBANK CURRENTLY DOES NOT FORESEE ANY SERIOUS UNEMPLOYMENT PROSPECTS AND TENTATIVELY ESTIMATES AN AVERAGE UNEMPLOYMENT LEVEL OF 500,000 FOR 1974. IN ADDITION, THE NUMBER OF FOREIGN WORKERS

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IN THE FRG IS LIKELY TO DECLINE NEXT YEAR AND MAY AVERAGE IN THE 2.0 TO 2.5 MILLION RANGE WITH THE BEST GUESS BEING A REDUCTION OF ABOUT 200,000 GUEST WORKERS BELOW 1973 LEVELS. IF WAGE SETTLEMENTS ARE ON THE "HIGH SIDE" (TOO MUCH OVER 10 PERCENT), THE UNEMPLOYMENT RATE MAY GO UP. THERE IS SUBSTANTIAL WORKING LEVEL SENTIMENT THAT, IN THIS CASE, THE BUNDESBANK AND "HOPEFULLY ALSO THE FEDERAL GOVERNMENT"

SHOULD MAKE IT CLEAR TO EMPLOYERS AND EMPLOYEES THAT  
IT WILL NOT RELAX ITS POLICIES TO PREVENT UNEMPLOYMENT  
AT THE COST OF HIGHER INFLATION.

7. BUNDESBANK DIRECTORS DO NOT FORESEE ANY RELAXATION  
IN MONETARY POLICY EXCEPT FOR TECHNICAL CORRECTIONS  
TO NEUTRALIZE FOREIGN CAPITAL INFLOWS OR OUTFLOWS, AND  
TRUST THAT THE GOVERNMENT WILL NOT FURTHER RELAX FISCAL

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 00958

POLICY. WORKING LEVEL OFFICIALS, HOWEVER, CAST A  
FEARFUL EYE ON THE PROCEEDS OF THE GOVERNMENT'S  
STABILITY PROGRAM WHICH ARE ON DEPOSIT AT THE  
BUNDESBANK BUT WHICH CAN BE WITHDRAWN AT ANYTIME BY  
THE GOVERNMENT WITHOUT BUNDESBANK APPROVAL.

8. MOST BUNDESBANK OFFICIALS ESTIMATE THAT THE HIGHER  
CRUDE OIL PRICES WILL ADD ABOUT DM 15 BILLION (WITH  
SOME OFFICIALS ESTIMATING AS LOW AS DM 13 BILLION AND  
OTHERS UP TO DM 18 BILLION) TO THE FRG'S IMPORT BILL

IN 1974. IT WAS REPEATEDLY STRESSED TO THE ACTING FINANCIAL ATTACHE, HOWEVER, THAT PART OF THE INCREASED PETROLEUM COSTS WOULD BE PASSED THROUGH IN THE FORM OF HIGHER EXPORT PRICES. THE BANK ALSO FEELS THAT THE OIL PRODUCING COUNTRIES WILL USE SOME OF THEIR INCREASED REVENUES TO STEP UP IMPORTS FROM THE INDUSTRIALIZED COUNTRIES. THE BANK IS EXTREMELY CONFIDENT THAT THE FRG WILL GET MORE THAN ITS SHARE OF ADDITIONAL EXPORT ORDERS.

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9. IT IS CONFIDENTLY FELT THAT THE FRG TRADE BALANCE (EXPORTS: F.O.B., IMPORTS: C.I.F.), EVEN WITH HIGHER OIL PRICES AND LOWER WORLD ECONOMIC GROWTH, WILL BE OVER DM 20 BILLION IN 1974 WITH MOST ESTIMATES ZEROING IN ON THE DM 25 BILLION FIGURE. (FOR 1973, THE TRADE BALANCE IS EXPECTED TO BE DM 33-34 BILLION.) REMITTANCES OF FOREIGN WORKERS ARE EXPECTED TO DECLINE AND THE DEFICIT ON THE TOURIST ACCOUNT IS GUESTIMATED TO BE ABOUT THE SAME AS IN 1973. PAYMENTS TO THE EEC COULD INCREASE BUT THE EXACT AMOUNT WILL HINGE SOMEWHAT IN UPCOMING POLITICAL DECISIONS (E.G., REGIONAL FUND). BUNDESBANK SENIOR AND WORKING LEVEL OFFICIALS ALL EXPECT THE 1974 CURRENT ACCOUNT BALANCE TO BE ROUGHLY IN EQUILIBRIUM (AS OPPOSED TO THE ESTIMATED 1973 CURRENT ACCOUNT SURPLUS OF DM 11 BILLION). ESTIMATES RANGE FROM 0 PLUS PLUS (TUENGELER) TO ABOUT 0 (SCHLESINGER) TO 0 MINUS (IRMLER). THE OECD ESTIMATE (OECD PARIS 0541) OF A 2 1/2 BILLION DOLLAR FRG CURRENT ACCOUNT DEFICIT FOR 1974 IS CONSIDERED TOTALLY UNREALISTIC.  
HILLENBRAND

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